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RUEHBY/AMEMBASSY CANBERRA 1458  
RUEHBJ/AMEMBASSY BEIJING 1994  
RUEHKA/AMEMBASSY DHAKA 4955  
RUEHNE/AMEMBASSY NEW DELHI 4958  
RUEHUL/AMEMBASSY SEOUL 8540  
RUEHKO/AMEMBASSY TOKYO 6109  
RUEHCN/AMCONSUL CHENGDU 1549  
RUEHCHI/AMCONSUL CHIANG MAI 1781  
RUEHCI/AMCONSUL KOLKATA 0400  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 3981  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1944  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000663

SIPDIS

STATE FOR EAP/MLS, INR/EAP, IO/EDA, EEB  
DEPT PASS TO USAID/ANE, USAID/OFDA  
PACOM FOR FPA  
TREASURY FOR OASIA

E.O. 12958: DECL: 08/15/2018  
TAGS: [EFIN](#) [EAID](#) [ECON](#) [PREL](#) [PGOV](#) [BM](#)  
SUBJECT: BURMA: UN, NGOS COPE WITH FEC DEPRECIATION

REF: A. RANGOON 596  
[1](#)B. RANGOON 496  
[1](#)C. RANGOON 592

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Classified By: CDA Tom Vajda for Reasons 1.4 (b and d)

[1](#)1. (C) Summary. Burma's Foreign Exchange Currency (FEC), which should have 1:1 parity with the U.S. dollar, has lost 25 percent of its value in the past three months, affecting international organizations' in-country humanitarian and relief operations. On August 14, the Tripartite Core Group announced an agreement allowing UN agencies and NGOs to conduct direct dollar-denominated bank transactions to pay local vendors, eliminating the longstanding requirement to exchange dollars for FEC. This agreement legalized the financial process already in use informally by many UN agencies and NGOs. Because UN and NGOs are still unable to withdraw dollars instead of FEC for cash transactions, some NGOs will continue to forgo banks entirely by hand-carrying dollars or using informal channels to transfer money into Burma. End Summary.

FEC Losing Ground  
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[1](#)2. (SBU) Burmese foreign exchange rules mandate that organizations operating in Burma can only use local currency, either the kyat or FEC. While organizations may transfer foreign currency into their Myanmar Foreign Trade Bank (MFTB) dollar accounts, they may not withdraw dollars. Instead, MFTB automatically converts the foreign currency into FEC or kyat at a predetermined exchange rate.

[1](#)3. (SBU) While the dollar to FEC exchange rate is fixed at 1:1 parity, the rate for each fluctuates against the kyat on

the local black market (which the government tolerates). In the past three months, the FEC has lost 25 percent of its value against the kyat compared to the dollar. As of August 13, one FEC was worth 900 kyat; one U.S. dollar was worth 1190 kyat. The value of the FEC has held steady since mid-July, but the U.S. dollar has appreciated against the kyat during the past several weeks, increasing the gap between the FEC and dollar. Since international organizations can only withdraw FEC or kyat from their dollar accounts, the FEC depreciation has significantly reduced their purchasing power locally. (Ref A).

UN: Few FEC Transactions  
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14. (C) We met with representatives from several UN agencies and NGOs to ascertain the effect of the FEC depreciation on their operations. UNDP Deputy Resident Representative Shahrokh Mohammadi noted that recent UN studies showed that UN agencies only lost USD 1.56 million rather than the reported USD 10 million (Ref A). Most UN agencies conducted the majority of their transactions in dollar-denominated bank transfers rather than in FEC. UNDP and WFP operations have been most affected, but they only spent 3.5 percent and 5 percent of their budgets in FEC, respectively.

15. (C) Mohammadi detailed UN efforts to reduce the use of the FEC, explaining that many UN staff located in Rangoon are paid in dollars through bank draft. Most UN staff do not withdraw their salaries in FEC, but instead transfer it to offshore accounts and bring the money in through the hundi (informal money transfer) system. For field staff who are paid in kyat, UNDP transfers money from its dollar account

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into the account of a money changer, who provides kyat at the market rate. With direct transfers, UNDP minimizes its need for FEC, saving the 300 kyat difference between the FEC and dollar, he explained. Other UN agencies conduct similar transactions. Mohammadi acknowledged that the GOB was unaware of the UN's bank transfers to vendors and money changers.

16. (C) Chris Kaye, WFP Country Director, told us that WFP's largest financial losses had occurred during local procurement of rice and other commodities. When the GOB in June prohibited WFP from buying Burmese rice in an effort to secure domestic rice supplies and control costs, WFP was forced to import rice from India and Thailand (Ref B). Even though WFP rice prices were now higher - USD 500 a metric ton for Indian and Thai rice compared to USD 400 a metric ton for Burmese rice - the price difference was still less than the FEC/dollar exchange rate difference. Overall, WFP had saved money by paying dollars for imported rice. Other UN agencies were conducting price comparisons to see if importing commodities would save them money, he noted.

17. (C) Since mid-July, following the visit of U/SYG for Humanitarian Affairs John Holmes, the UN has been working with the Ministry of Planning to find a solution to the FEC issue (Ref C). On August 14, the Tripartite Core Group (TCG) announced the GOB decision to allow international organizations to make payments to local vendors and money changers via dollar-denominated bank transfers. Any withdrawals, however, would still be in FEC rather than dollars.

18. (C) Kaye confirmed that the GOB's decision legitimized what many UN and NGOs had already been doing without the GOB's knowledge. He noted that by paying vendors through dollar transfers, the onus was on individual vendors to make up the FEC/dollar difference. The Minister of Planning, unconcerned about the fate of the individual vendors, told the UN that the merchants "would figure it out," indirectly referring to their use of the hundi system to move money in and out of Burma. Additionally, under the agreement, vendors

would be exempt from paying a 10 percent tax on dollar receipts, Kaye noted. The UN Resident Coordinator and UN Emergency Relief Coordinator would meet with the Minister of Finance on August 15 to confirm implementation of the new policy.

#### NGOs Trying to Cope

¶9. (C) The depreciation of the FEC has significantly affected NGOs' operational ability, NGO representatives told us. Unlike the UN, most NGOs conduct transactions in FEC and kyat, and thus suffer a loss every time they withdraw money from their MFTB accounts. The recent expanding gap between the FEC and dollar exchange rates has placed increased pressure on NGO budgets. However, Save the Children Director Andrew Kirkwood emphasized that the losses due to FEC depreciation were not as high as reported in the media. The most affected, he noted, were the NGO staff who were paid in FEC. Several larger NGOs had been compensating their staff with food and transportation allowances to offset the depreciation. Other NGOs, such as CARE, had raised salaries temporarily. Nevertheless, if the FEC-kyat rate remained significantly below the dollar-kyat rate, local staff would find it harder to make ends meet, Kirkwood noted.

¶10. (C) CARE Director Brian Agland told us that NGOs were

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looking for ways to "manage" the FEC issue and had raised the problem with their partner GOB Ministries. Most NGOs were trying to pay their dollar-denominated bills in FEC instead of kyat, reducing the exchange rate loss. In the case where creditors would not accept FEC, NGOs with dollar-denominated accounts were paying bills through direct dollar transfers between bank accounts. Additionally, many small and mid-sized NGOs had started to bring in "bags of cash" from Thailand and Singapore, forgoing the banking system entirely.

However, for larger NGOs with expenditures of more than USD 1 million a month, carrying money in was not an option, he noted. Several NGOs had explored the option of keeping their money in offshore accounts and using the hundi system to bring it into Burma.

¶11. (C) Save the Children's Kirkwood told us that his NGO had taken advantage of the banking loophole that allowed organizations to withdraw dollars for foreign travel. Whenever staff traveled overseas, they withdrew USD 20,000 from Save's MFTB account, which was later exchanged for kyat at the market rate. With more than 1,100 staff, Save the Children had plenty of travel opportunities, he noted.

#### Comment

¶12. (C) UN and NGO losses from the FEC's depreciation against the kyat -- which have been significant, though considerably lower than the USD 10 million reported in the media -- have forced these organizations to undertake creative measures to avoid the Burmese banking system and limit their FEC exposure. Some of these mechanisms clearly violated GOB regulations and entailed some risks. The August 14 GOB decision to allow the UN and NGOs to make payments through dollar-denominated bank transfers reduces this risk by legitimizing some of their recent practices. It is not clear whether the ability to forego dollar-FEC purchases will impact the FEC-kyat rate, however. The sharp rise of FEC in circulation after Cyclone Nargis -- which most observers believe came via the printing press -- persists, and money changers and other Burmese will continue to prefer dollars to FEC.

VAJDA